



November 3, 2004

Dear Independent Review Committee,

At our last meeting on October 22, committee members posed several informational questions that were not fully addressed by the written material DNR staff had provided up to that point. In some cases, the information answering those questions is critical to the tentative findings the committee is considering. Therefore, DNR staff have assembled the enclosed information to answer those committee questions. This should facilitate your discussion of committee findings before and during your November 17 meeting.

The information transmitted today provides answers to the following committee questions:

1. Can DNR increase net revenue by harvesting more timber?

Staff have provided information about the Board of Natural Resources' rationale for their recent action setting the sustainable harvest level, and the effect of increasing harvest volume on management fund balances.

2. Is DNR's timber price forecast reasonable?

Staff have provided an explanation and examples of the information that goes into DNR's forecast of timber prices.

3. How have recent expenditures been reduced?

Staff have provided a graph showing how expenditures have been reduced significantly in the past two biennia.

4. What are the detailed management expenditures currently made with DNR's 25% share of gross revenues?

Staff have provided a detailed breakdown of current management fund expenditures.

5. How, in detail, does DNR propose to spend the projected \$10 million annual increase in management expenditures it says is needed to implement the Board of Natural Resources' direction to increase harvests?

Staff have provided a detailed breakdown on proposed staffing and related increases, by staff function and fiscal year.

6. What would be the financial impact on trust beneficiary revenue and management fund balance from increasing the harvest level to the Board-approved level while increasing the maximum management fee deduction to 30%?

Staff have provided a series of tables and a graph that sequentially shows the effects on beneficiary revenue and management fund balance of 1) the status quo, without increasing harvest levels or fund deduction percentage; 2) increasing the harvest while keeping the fund deduction at today's levels; and 3) increasing the harvest and also increasing the fund deduction to 30%.

Staff believe this final piece of information does a good job of encapsulating the fundamental issues facing the department and the beneficiaries.

I hope the information provided here, when taken together, along with earlier volumes of information, provides the factual basis the committee needs to begin to make sound and independent findings, and to discuss potential committee recommendations to Commissioner Sutherland. As always, if DNR staff can provide answers to any other factual questions central to the committee's discussions, I'll be happy to attempt to provide those answers.

I look forward to speaking with each of you prior to the November 17 meeting.

Sincerely,



Jed P. Herman